

Chapter 5—Two-Tiered Reimbursement Provisions

Reimbursement for meals is based on a two-tiered rate structure. Providers receive reimbursement for meals served to enrolled children based on economic need as determined by:

- the location of the provider;
- the income of the provider; or
- the household income of each participating child.

Tier determinations are to be made in this order: School data, Census data, household income. If the provider does not qualify for tier I, the provider has the option to receive straight tier II rates or to have the households submit *Applications For Free and Reduced Price Meals*.

You must determine whether your providers can claim Tier I or Tier II reimbursement. You will use elementary school data (provided by SCNP), census data, or household income information given to you by the provider, to make Tier I determinations. A provider that does not qualify as Tier I will receive Tier II reimbursement. A provider may qualify as either Tier I or Tier II for any given month. However, no provider may be claimed in both categories for an individual month. A Tier I determination based on elementary school data is valid for five years from the effective date of the determination, e.g. if, on July 1, 2007, you determine that a provider qualifies as Tier I, the determination is valid through June 30, 2012. When census data is used, the determination is valid for five years also. When the provider's household income is used, the Tier I determination is valid for one year from the effective date of the determination. For example, if during July 2007, you determine that a provider qualifies as Tier I, the determination is valid through July 2008.

Tier I and Tier II Providers

Providers qualify as Tier I if:

- 1) their homes are located in geographic areas shown to be low-income by elementary school data or by census data, or
- 2) they are determined to be low-income based on income information obtained from the provider.

Providers will claim Tier II reimbursement if they do not qualify as Tier I. Tier II providers are categorized: Tier II High, Tier II Low, and Tier II Mixed. These categories will be determined each month and are based on the tier determination of the children enrolled for child care that month.

A provider qualifies as **Tier II High** if all of their enrolled children have been determined eligible for Tier I meal reimbursement. If all of a Tier II provider's enrolled children were

certified eligible for Tier I reimbursement during the claim month, the provider will be reported as a Tier II High on that month's claim for reimbursement.

Note: Only those Tier II providers who have chosen to distribute income applications and whose enrolled children are all certified for Tier I reimbursement by income will be categorized as Tier II High.

A provider qualifies as **Tier II Low** if none of their enrolled children are eligible for Tier I meal reimbursement. If none of a Tier II provider's enrolled children were eligible for Tier I reimbursement during the claim month, the provider will be reported as a Tier II Low provider on that month's claim for reimbursement.

Note: Tier II providers who have chosen not to distribute income applications and Tier II providers who have chosen to distribute income applications, but none of their children are certified eligible for Tier I reimbursement will be categorized as Tier II Low.

A provider qualifies as **Tier II Mixed** if at least one of their enrolled children has been determined eligible for Tier I meal reimbursement and at least one other enrolled child is ineligible for Tier II meal reimbursement. If a Tier II provider's enrolled children were a mixture of Tier I and Tier II children, the provider will be reported as Tier II Mixed on the month's claim for reimbursement.

Note: Only those Tier II providers who have chosen to distribute income applications and whose enrollment consists of children who are certified eligible for Tier I reimbursement and children who receive Tier II reimbursement will fall into this category.

Area-Eligible Tier I Providers

A provider who is eligible for Tier I reimbursement based on elementary school or census data, i.e. an area-eligible provider, will receive Tier I reimbursement for all nonresident enrolled children. The provider will not complete an income application for the nonresident children.

Area eligibility is based on the geographical location of a provider. Therefore, if an area-eligible provider changes location, you must reassess the provider's eligibility.

Area Eligible Tier I Providers Based on School Data

The yearly list of schools that you receive from SCN contains all schools that have at least 40% if its students eligible for free or reduced-price meals.

Some providers are located in an attendance area that is served by a single school while other providers are located in an attendance area that is served by "sister schools." Sister schools are two or more schools that serve the same attendance area, but some of the grades are in one of the sister schools and the other grades are in the other sister school or schools.

Example: Two sister schools serve the same attendance area; one contains grades K-3 and the other contains grades 4-5.

You must determine the school or sister schools in whose **attendance area the provider is located**. You must verify, by written or verbal verification from the school corporation (NOT the provider), that the provider is located in the attendance area. You may not use schools that have court-ordered busing or schools that are magnet schools, charter schools, or alternate schools that serve the entire school corporation. Written documentation may include a map with school boundaries, a letter confirming school boundaries, etc. Verbal documentation may include a telephone conversation with a school official knowledgeable in school boundaries.

Exception: Some rural areas or small towns will have a single school or sister schools that serve the entire town or school district. In this case, it is acceptable for the "specific neighborhood" from which the school or sister schools draw attendance to be the entire town or ISD.

You must verify, by written or verbal verification from the school system, that the school or sister schools in whose attendance area the provider is located does not target its attendance to children with special needs. Schools such as alternate schools and schools that primarily or only serve children with disabilities, etc., may not be used.

You must use the list of schools that you received from SCNPN to make tier determinations. You may not obtain or use more recent school data from schools.

The school or sister schools in whose attendance area the provider is located, must be on the current list of schools at the time you make the tier determination.

The percentage of income-eligible children for the school (or sister schools) in whose attendance area the provider is located must be **equal to or greater than 50 percent**.

When the provider lives in an attendance area served by a single school, and the list of schools shows that the "% of eligible" children for the school in whose attendance area the provider is located is at least 50 percent, the school has sufficient income-eligible children.

Example: The list of schools shows the school's "% of eligible" children is 51.28 percent.

Note: If the "% of eligible" children is less than 50 percent (such as 49.94 percent), you may not round up and the school data may not be used.

You must retain documentation of all school data used in a tier determination. Documentation includes, but is not limited to, the list of schools, copies of all written information that you receive from school officials (i.e., maps of school boundaries, letters confirming school boundaries, etc.), and written documentation of all verbal information

you receive from school officials. Documentation of verbal contacts with school officials must include:

- 1) the name of the school being used for the tier determination and the school corporation in which the school is located;
- 2) the name of the school official who was contacted;
- 3) the date the school official was contacted;
- 4) the phone number of the school official who was contacted; and
- 5) the specific information you were given by the school official.

Failure to retain adequate documentation could result in denial of a provider's Tier I eligibility and additional adverse action against your organization.

School data may not be used for a Tier I determination if any of the following occurs:

- 1) the school (or sister schools) in whose attendance area the provider is located is not on the current list of eligible schools given to you by SNP;
- 2) you are unable to obtain written documentation or verbal verification from the school that the provider lives in an eligible school's (or sister schools) attendance area;
- 3) the school (or sister schools) in whose attendance area the provider is located does not draw its attendance from a specific neighborhood (i.e.: the school has court-ordered busing, or is a magnet school, charter school, or alternate school);
- 4) the school (or sister schools) in whose attendance area the provider is located targets its attendance to children with special needs (i.e.: the school is an alternate school or serves primarily children with disabilities, etc.); or
- 5) the percentage of eligible children for the school (or sister schools) in whose attendance area the provider is located is not equal to or greater than 50 percent.

A Tier I determination based on School data is valid for five years from the effective date of the determination, e.g. if a provider is determined to be Tier I effective December 1, 2012, the determination is valid through November 30, 2017.

Area-Eligible Tier I Providers Based on Census Data

When determining the area eligibility of a provider for Tier I reimbursement, you must first consult school data. If the data is inadequate, you may consult census data. If you are unable to use school data, you must justify your use of census data. When determining the area eligibility of providers by consulting census data, you will use data that was provided by Special Nutrition Programs (SNP).

If you use census block data provided by SNP, you must maintain the following:

- 1) a copy of the information provided by SNP which shows the provider is located in an eligible census block (one in which 50 percent or more of the children are from households which meet income standards for free or reduced-price meals);
- 2) the census block group number in which the provider is located;
- 3) documentation of the effective date of the Tier I determination;
- 4) documentation of why you were unable to use school data.

A Tier I determination based on census data is valid for five years from the effective date of the determination, e.g. if a provider is determined to be Tier I effective December 1, 2012, the determination is valid through November 30, 2017.

Resident Children in Area Eligible Tier I Homes

CACFP regulations require that an area-eligible Tier I provider's resident child, i.e., a provider's own child, be income-eligible or categorically eligible to participate in the CACFP. The standard Application For Free and Reduced-Price Meals is used for area eligible Tier I providers who wish to claim their own resident children. You must use the standard application form and ensure that each area-eligible Tier I provider receives and has an opportunity to submit an application for program benefits for resident children.

An area-eligible Tier I provider can only claim reimbursement for a resident child, including a foster child, if the provider completes an Application for Free and Reduced Price Meals for the resident child and you determine that the resident child is income or categorically eligible based on the form.

"Provider's own children" includes all residential children in the household who are part of the economic unit of the family. A family is defined as a group of related or unrelated individuals who are not residents of an institution or boarding house, but who are living together as one economic unit. An economic unit is a group of related or unrelated people who share housing and/or all significant income and expenses. Children whose parents or guardians have made a contractual agreement, whether formal or informal, with a provider for residential care, and whose relationship with the provider is defined primarily by the child care situation, are not considered the "provider's own."

A foster child is treated the same as any other "provider's own child" for determining eligibility on the basis of family size and income, except that a foster child is considered to be a family of one with only those funds going directly to the foster child being considered income. Money the family receives for providing foster care for the child is not considered income to the foster child. This is because the foster child remains the legal responsibility of the court or welfare agency that placed him in foster care.

As with all "provider's own children,"

- 1) the foster child must be officially enrolled and participating with the provider in compliance with state and/or local licensing standards, and
- 2) at least one nonresidential child, enrolled for and receiving child care from the provider, must be in attendance and participating in the meal service.

You must also review the application to ensure that it contains the child's ten digit number for Temporary Assistance for Needy Families (TANF) or ten digit Food Stamp case number. Any TANF or Food Stamp case number with more or less than ten numeric digits, including Electronic Benefits Transfer account number, is not an acceptable case number. If no TANF or Food Stamp case number is provided, or if an incomplete TANF or Food Stamp case number is provided, the application must include:

- 1) names of all household members
- 2) the last four digits of the social security number of the adult household member who signs the form (or the word "none" if the adult household member signing the form has no social security number); and
- 3) current income of each household member, by source of income (including the child enrolled for child care).

You are not required to verify the income information that an area-eligible provider reports for a resident child.

When determining eligibility based on a child's receipt of TANF or Food Stamps, if one person in the household qualifies, then the entire household is eligible.

A new Application for Free and Reduced-Price Meals must be completed for a resident child every 12 months (one year from the effective date of the determination). The provider's own child is not eligible for CACFP benefits if the application is more than one year old.

Sponsors will use a PARENT LETTER FOR FAMILY DAY CARE PROVIDERS TO CLAIM OWN CHILDREN IN TIER I HOMES. It contains only the family size and income standards for reduced-price meals. It advises providers that, if their household income is at or below the levels indicated, their own children may be eligible for CACFP benefits.

Providers will not be reimbursed for meals served to their own children if they:

- do not return a completed Application for Free and Reduced-Price Meals, or
- fail to qualify for reduced-price meals.

You must use the information on the application to determine eligibility by:

- 1) determining the size of the family;
- 2) determining the total income of the family (or receipt of TANF or Food Stamps);
- 3) finding the family size and income on current income guidelines; and
- 4) determining if the child's family size and income is within the income limits for free or reduced-price meals.

Family size and income standards change every July 1. When determining eligibility for free and reduced-price meals, weekly income should be multiplied by 4.33 to arrive at the monthly income. Bi-weekly income should be multiplied by 2.15. If you multiply the weekly or bi-weekly income by any other number, there is a small but significant chance that the monthly income total could result in incorrectly categorizing the child. This incorrect categorization could result in an overpayment to your providers.

The effective date of a resident child's Tier I eligibility may be made retroactive to the first of the month in which the resident child's Tier I eligibility determination is made.

A child is automatically eligible for meals, if an area-eligible Tier I provider's resident child is enrolled as a participant in the:

- Head Start Program; or
- Even Start Family Literacy Program and the child has not yet entered kindergarten.

Therefore, the child may participate in the CACFP and the provider will receive Tier I reimbursement for meals served to the child.

To document that an area-eligible Tier I provider's resident child is categorically eligible based on Head Start/Even Start participation, the provider must furnish you with a letter from the:

- Head Start Program which states that the child is currently enrolled as a participant in the Head Start Program based on Head Start's low-income criteria; or
- Even Start Program which states that the child is currently enrolled as a participant in the Even Start Program and that the child has not yet entered kindergarten.

The letter must be signed and dated by the local Head Start/Even Start project director or an employee who is authorized to make the certification on behalf of Head Start/Even Start. You may assume that the person signing the letter on behalf of Head Start/Even Start is authorized by Head Start/Even Start to provide the certification. A copy of the Head Start/Even Start certification letter is sufficient documentation that the provider's child is eligible to participate in the CACFP. If the provider furnishes you with the Head Start/Even Start letter, you do not need to obtain an Application for Free or Reduced Price Meals for the provider's child.

You must retain a copy of the Head Start/Even Start certification letter as part of your CACFP records and make it available for inspection during a CACFP review, audit, or other official visit.

A resident child's categorical eligibility based on participation in Head Start/Even Start must be updated annually. Therefore, every 12 months the provider must again furnish you with a copy of a letter from:

- Head Start certifying that the child is currently enrolled as a participant of Head Start; or
- Even Start certifying that the child is currently enrolled as a participant in Even Start and has not yet entered kindergarten.

If the provider does not submit a copy of a current Head Start/Even Start certification letter to you to update the child's categorical eligibility, the provider must complete a Application for Free and Reduced-Price Meals in order for you to determine if the resident child is eligible to participate in the CACFP.

You must protect the confidentiality of any information that has been provided on an Application for Free and Reduced-Price Meals. You may only use the information to determine eligibility for program benefits and verify income. Do not release any information that contains a program participant's name or other individual information.

Income or Categorically Eligible Tier I Providers

Providers who wish to demonstrate income or categorical eligibility for Tier I reimbursement must complete an Application for Free and Reduced-Price Meals. Income information reported by the provider on the application must be compared to the current income eligibility guidelines to determine if the provider is income-eligible.

You must verify the income information or categorical eligibility information reported on the application prior to determining a provider eligible for Tier I reimbursement. You will verify the income/categorical eligibility information reported on a provider's application to written documents e.g. pay stubs, letters from employers, IRS tax information such as Schedule C, award letters, or through collateral contacts. You must keep a copy of the written documentation that you use to verify a provider's income/categorical eligibility.

You must keep a written record of collateral contacts you make to verify a provider's income eligibility, including the name and telephone number of the person who verified the provider's income and the date you spoke to that person.

Providers may provide documentation of participation in the Food Stamp Program or proof of receiving Temporary Assistance for Needy Families (TANF) to be categorically eligible; or they may provide documentation that their child is currently enrolled as an income-eligible participant in the Head Start Program. A provider may not be considered categorically eligible for Tier I based on the provider's resident child participation in the Even Start Program.

A Tier I determination based on the provider's household income or categorical eligibility is valid for one year from the date of the determination, e.g., if a provider is determined to be Tier I during May 2007, the determination is valid through May 2008.

To determine income/categorical eligibility you must have an Application for Free and Reduced-Price Meals completed by the provider, and one of the following which verifies the provider's income:

- copies of written information you obtained to verify the provider's income/categorical eligibility such as pay stubs, letters from employers, IRS Form 1040 or Schedule C, Food Stamp or Temporary Assistance for Needy Families (TANF) award letters, documentation which verifies current participation in a program that establishes categorical eligibility, etc., or
- documentation which verifies that you obtained verbal confirmation of the provider's income or participation in a program that establishes categorical eligibility from someone outside the provider's household, such as employers, social service agencies, migrant agencies, etc.

The income of a provider who is associated with a corporation will differ from other providers in that the provider will likely have wages from the corporation rather than self employment income. In addition, if the provider is a shareholder of the corporation, the provider may also receive dividends from the corporation. The provider must include both the wages and dividends received from the corporation as household income.

A provider who completes an Application for Free and Reduced-Price Meals and is determined to be income or categorically eligible for Tier I reimbursement is eligible to receive Tier I reimbursement for all resident and nonresident children (including foster children) enrolled for child care. The provider will not complete separate applications for any of the children in care.

Tier II Providers

If a provider does not qualify as Tier I, the provider will claim Tier II reimbursement. Meals that are served to resident children (excluding resident foster children) in Tier II homes cannot be claimed for reimbursement.

A Tier II provider may claim reimbursement for a resident foster child if one of the following conditions is met:

- the provider completes an Application for Free and Reduced-Price Meals for the foster child and the foster child is determined to be income-eligible or categorically eligible; or
- the provider provides documentation that the foster child is enrolled as an income-eligible participant in the Head Start or Even Start Program.

The following requirements must also be met in order for a Tier II provider to claim reimbursement for meals served to a resident foster child:

- the foster child must be officially enrolled and participating with the provider; and
- at least one nonresidential child, enrolled for and receiving child care in the provider's home must be in attendance and participating in the meal service.

If the above requirements are met, the foster child is considered a Tier I child and the Tier II provider will receive Tier I reimbursement for meals served to the foster child.

A resident foster child's categorical eligibility based on participation in Head Start/Even Start must be updated annually. Therefore, every 12 months the provider must again furnish you with a copy of a letter from:

- Head Start certifying that the foster child is currently enrolled as a participant of Head Start; or
- Even Start certifying that the foster child is currently enrolled as a participant in Even Start and has not yet entered kindergarten.

Nonresident Children in Tier II Homes

Tier II providers must be allowed to choose whether or not they want you to identify income-eligible nonresident children. Sponsors will use a Tier II Options Letter.

The Tier II provider may choose to:

- have income applications given to households of all enrolled children, and agree to receive Tier I meal payments for income-eligible or categorically eligible children and Tier II meal payments for all other enrolled children; or
- have income applications given only to households of enrolled children who the sponsor or provider have identified as categorically eligible, because of the child's or their parent's/guardian's participation in an eligible federally or state federal program, and agree to receive Tier I meal payments for categorically eligible children and Tier II meal payments for all other enrolled children; or
- have no income applications given to households of enrolled children, and agree to receive Tier II meal payments for all enrolled children.

The provider may change their choice for distributing income applications at any time during the program year.

If a Tier II provider chooses to have income applications distributed to the households of children in care, the households must be given a PARENT LETTER for TIER II Homes and an Application for Free and Reduced-Price Meals.

The sponsor or the provider may distribute these forms. The households or the provider must be instructed to return the Application for Free and Reduced-Price Meals to the sponsoring organization and it must make the determination of whether or not the child is eligible for Tier I reimbursement.

The determination of whether or not the child is eligible for Tier I reimbursement may be retroactive to the first day that the child participates in the month in which the eligibility determination is made by the sponsor. For example, if a child began participating on September 5th and the sponsor approves the child's application on September 28, the provider will receive Tier I rates for the child's meals effective September 5. If the child begins participating on September 5, but the sponsor does not approve the child's application until October 3, the provider would receive Tier II rates for the child's meals in September and the provider would receive Tier I rates for the child's meals effective October 1.

In order to demonstrate categorical eligibility, households of nonresident children in Tier II homes are required to provide the name and case number of the eligible program in which the child or parent/guardian participates. When a household of a nonresident child in a Tier II home is completing a application, the following information must be completed to document participation in one of the eligible programs:

- If the child or their parent/guardian participates in Food Stamps or Temporary Assistance for Needy Families (TANF), the Food Stamp or TANF case number must be provided because these two programs do issue case numbers.
- If the child or their parent/guardian participates in Head Start/Even Start or the National School Lunch Program, the name of the eligible program must be provided. The applicant must also enter the case number issued by the program or enter "none", or "no case number" in the space for the program case number, to indicate that the program does not issue a case number.

If this information is not provided, the child may not be approved as categorically eligible for Tier I rates.

The information that households provide on the Application for Free and Reduced-Price Meals is confidential and may not be shared with the provider. You may tell the provider how many of the children in care are Tier I and Tier II, but you may not tell the provider which children are Tier I and Tier II. In addition, you may not tell the provider which households did or did not return an application. A nonresident child's eligibility must be

updated annually. Therefore, every twelve (12) months an application must be obtained and reassessed.

Documentation of Providers' Tier Determination

You must maintain documentation that supports a Tier I determinations made on each provider.

Notification of Tier I/Tier II Determinations

You are required to notify providers of their tier status. Each agency will develop a notification notice to send to providers, with a copy to the file.

A determination that a provider is Tier II is an adverse action that the provider may appeal.

Reimbursement Based on Tier Determination

Tier I reimbursement rates are higher than Tier II reimbursement rates. All meals that are served to enrolled children by a Tier I provider will be reimbursed at Tier I rates.

Exception: Area-eligible Tier I providers may receive reimbursement for resident/foster children only if they are income or categorically eligible.

Tier II providers must be allowed to choose whether they want you to identify income-eligible children. If a provider requests that you identify income-eligible children, you must distribute and collect an Application for Free and Reduced-Price Meals for enrolled children and determine whether the children are income-eligible. The provider would receive Tier I reimbursement rates for the meals that are served to income-eligible children and Tier II reimbursement rates for the meals served to children who are not income-eligible. You must protect the confidentiality of children's income information. You may tell a provider the number of Tier I and Tier II children who are enrolled, but you must not identify the children on an individual basis as Tier I or Tier II.

If a Tier II provider does not want you to identify income-eligible children, the provider will receive Tier II reimbursement rates for all meals served to enrolled children. Providers cannot charge children separately for their meals.

Meal Counting, Reporting, and Reimbursement

You will have three options for reimbursing your providers. You may reimburse providers based on:

- actual meal counts;
- claiming percentages; or
- blended rates.

"Actual meal counts" reimbursement is based on the number of meals served to income-eligible children and the number of meals served to children who are not income-eligible.

"Claiming percentages" reimbursement is based on the percentage of income-eligible children and the percentage of children who are not income-eligible. The first month of a Tier II provider's participation in the CACFP would be the month of enrollment/attendance data collection. The claiming percentage would be applied to meals served during that first month and for the next five months thereafter. You must recalculate the percentages of children who are income-eligible and those who are not income-eligible **at least once every six months**. You may recalculate the percentages more frequently, but recalculations must be done with the same frequency for every provider whom you sponsor. Additionally, you must have a consistent policy for making more frequent recalculations, and the policy must account equally for changes that increase or decrease a provider's reimbursement.

"Blended rates" reimbursement is based on the percentage of income-eligible children and the percentage of children who are not income-eligible. A "blended" rate of reimbursement is calculated for each meal type. The first month of the Tier II provider's participation in the CACFP would be the month of enrollment/ attendance data collection, and the resulting blended rate would be applied to meals served during that first month and for the next five months thereafter. You must recalculate the percentages of children who are income-eligible and those who are not income-eligible **at least once every six months**. You may recalculate the rate more frequently, but recalculations must be done with the same frequency for every provider whom you sponsor. Additionally, you must have a consistent policy for making more frequent recalculations, and the policy must account equally for changes that increase or decrease a provider's reimbursement.

If you use claiming percentages or blended rates to reimburse your providers, you must calculate these options based on either attendance or enrollment. You can only use one method, attendance or enrollment, during a specific program year.

Claims for Meal Reimbursement

The meals served by providers will be reported in three categories the Claim for Reimbursement. The three categories that you will use for reporting meals on a claim will be:

- Tier I Meals, i.e., all meals served by Tier I providers;
- Tier II High Meals, i.e., meals served to Tier I children by Tier II providers; and
- Tier II Low Meals, i.e., meals served to Tier II children by Tier II providers.

The meal reimbursement that you will receive will be determined by multiplying the number of Tier I meals by the Tier I reimbursement rates established for each meal type, and by multiplying the number of Tier II meals by the Tier II reimbursement rates established for each meal type.

Documentation

You will be required to submit information related to the number of Tier I and II providers and the number of children enrolled by Tier I and II providers. You must gather this information annually. If a provider qualifies as Tier I, you must also retain a copy of all Tier I supporting documentation. Failure to maintain adequate records or make them available to the State Agency upon request could result in adverse action against your organization.